# Guidelines for BDS Cost and Pricing Strategies – International Best Practices & Examples

## OVERVIEW

There are literally dozens of operating models for BDS providers and facilitators around the world. No single model has been deemed as optimal nor has there been an extensive discussion about the relative merits of one kind over another in different operating environments. As would be expected, countries with advanced economies tend to have more specialized BDS, whereas those in developing countries tend to take on a broader mandate, and typically with a more socially oriented set of services.

The organization for which this report is being written, the Egyptian Social Fund for Development, is focused on improving prospects for sustainability; namely, by introducing a set of priced services. Before undertaking the pricing of even selected services, there are several types of information required:

- Services in-demand by target clients
- Services viewed as quality by target clients
- Which services clients will pay for
- Cost data to provide the services
- Also, very useful are competitors' prices for similar services.

There are a number of tried and accepted ways to gage BDS organizational sustainability and even the sustainability of individual services. These in combination with accepted methods to assess the demand for certain services and then refine the services mix are discussed herein.

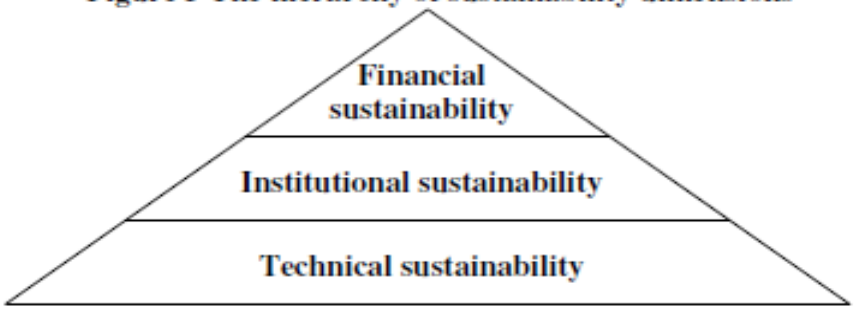
As such, this report is divided into three main sections:

1. Sustainability
2. Assessing Demand for Services
3. Pricing Services

## PART 1 - SUSTAINABILITY

### Assessing organizational sustainability

**Figure 5 The hierarchy of sustainability dimensions**




*Source: Commercially Sustainable BDS – The Case of Sri Lanka, ILO-SIYB, Karl-Oskar Olming, 2004.*

The three sections of the above pyramid form the basis of a sustainable BDS structure. The base, technical sustainability, involves the organization's fundamental ability to meet the needs of its target clientele, usually from amongst a population of MSMEs. The middle of the pyramid, institutional sustainability, is really about the professionalism of the organization and its ability to be cost efficient in the delivery of services. And, the top of the pyramid, involves performing the first two well enough to actually generate fees for services provided. This is usually the most difficult stage to achieve for most BDS facilitators/providers in emerging economies.

*Technical sustainability includes such things as:*

- Offering access to qualified, experienced business services providers
- Demonstrating the ability to adapt to the target group's circumstances – communicating in terms they will understand
- Promoting services by educating the target groups – an important consideration because MSMEs often do not understand how various services might help them grow their businesses
- Making services tangible – such as certifications that will open up new domestic or export markets
- Being efficient in delivery – particularly with shorter, less expensive services and products that smaller MSMEs will be able to afford
- Following-up the initial service has also proven to dramatically improve tangible results by helping the client to understand the real world use of any service received.

*Institutional sustainability includes:*

- Having the capacity to deliver quality services – whether the BDS organization is a facilitator or provider, because expertise is needed either way to ensure a valuable and tangible service is being delivered
- Being close in culture to MSMEs – both in terms of social culture and geography, which is certainly not a problem for NFSCS

- Having as low cost a structure as possible to ensure services can efficiently be delivered
- Having a commercial focus – meaning the BDS cannot be overly bureaucratic and slow, two characteristics that really create problems for most small business people
- And having organizational stability with consistent policies that clients view as fair and reliable.

*Financial sustainability requirements:*

Receiving fees for services is the most challenging aspect of BDS for most organizations. The economic and political transition in Egypt exacerbates this problem, though SFD and others (the IMC, TIC and various donor programs) are demonstrating that fees for services are indeed still very much attainable. Most BDS undertake the following steps to maximize their ability to collect fees for services.

- Providing low cost (subsidized) services with rapid client impact – those which result in near term sales gains or reduced costs are usually effective
    - Keeping costs low and services commercial by facilitating small BDS providers
    - Using modular services that can be sold in smaller pieces – training programs broken up into individual short courses, for instance
    - Offering low-cost introductory services with immediate value to draw in new clients – such as gaining immediate access to a new retailer
    - Promoting group purchase discounts then assisting to find participants
    - Allowing installment payments for some services (when they may be expensive) though this can be a risky tactic requiring staff time to work on collections
    - And allowing payment based on success fees – also risky as the success measure may be difficult to calculate and verify
- Utilizing embedded payments – this is a tactic used by most BDS orgs who offer both lending and NFS; it allows fees to be paid back through loan repayments making it less painful for the MSMEs
- Engaging in cross-selling – where lending staff promote NFS when meeting clients, and in fact, all technical departments sell each other's services to clients
- Taking advantage of cross-subsidizing – realizing that the higher fee generating services can help pay for others that may only have a low price due to the social needs of target clients
- And seeking third-party payments whenever possible from corporations' CSR budgets – NFSCS has already had some success with this, particularly in its Entrepreneurship Department.

**Assessing service sustainability**

The above three steps are typically used to asses BDS organizations as a whole. The process to assess the demand for individual services is naturally quite different. One common way referenced by practitioners is to gage the awareness ratio, the reach ratio and the retention ratio for individual services.

*Awareness ratio*

The awareness ratio is the ratio of those who know about the availability of a specific service to those who do not. If this ratio is low, it usually means the BDS system of outreach is not effective at targeting and informing people about the available service and the fact it may help them grow their business.

*Reach ratio*

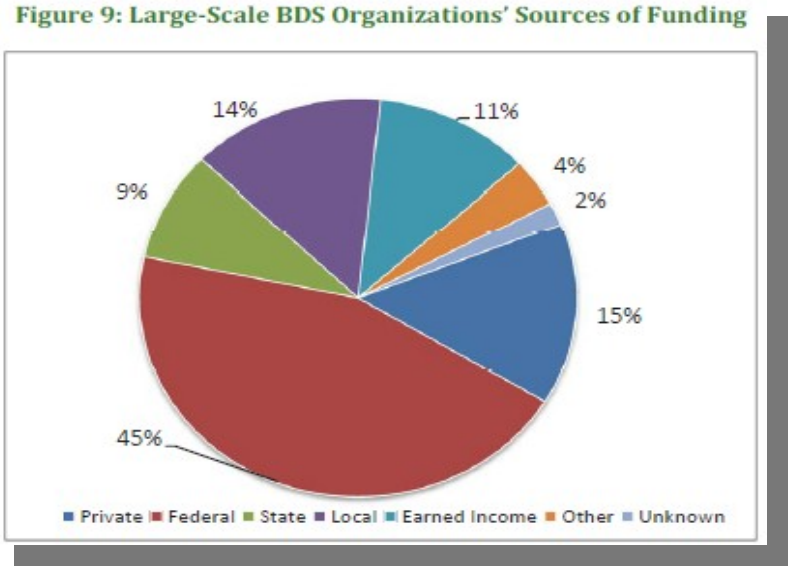
The reach ratio builds on the awareness ratio by asking those who are, in fact, aware of a specific service whether or not they have tried the service. If the ratio of awareness of a service to actually trying it is low then the service on offer is probably not in-demand by the target group.

*Retention ratio*

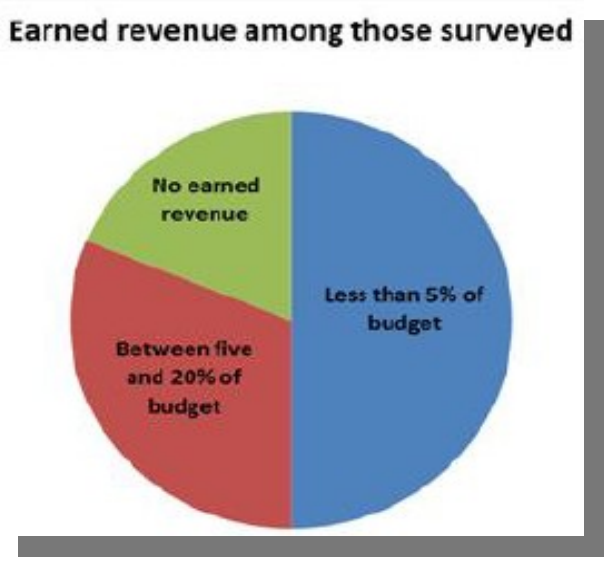
Finally, the retention ratio asks those who have tried a service if they are continuing to use it. If the ratio is low this generally means the service was not up to expectations and not useful enough or of a quality level that the client requires. Naturally, a good retention ratio is important for BDS organizations to help sustain themselves through fee generation.

**Benchmarking fee generation**

Fee generation in BDS providers and facilitators is almost always an organizational goal (though not always, as seen below). However, the amounts of fees generated are usually not as great as might be assumed. The examples below are from the North American market, mainly because it is a mature market for BDS and there are a large number of service providers and facilitators in operation there. While numbers are more difficult to come by for BDS in emerging markets, this consultant’s experience and anecdotal evidence suggests that fee generation certainly does not typically exceed the examples below.




*Source: The State of Business Dev. Services, The Aspen Institute, Elaine Edgcomb & William Girardo, 2012*




*Source: Sustaining the Delivery of BDS, The Aspen Institute, Luz Gomez & Elaine Edgcomb, 2013*

As may be seen from the previous two graphics, the levels of fee generation by typical BDS organizations is low in comparison with other sources of revenues. And, being that most of these organizations are non-profit, the fee generating pie charts also closely represent the total operating budgets. The main conclusion to be drawn is fees from BDS services provided to MSME clients will likely never be high enough to cover more than a relatively small percentage of overall operating costs. In lieu of large funding tranches from national, state and local governments, which are typically not available in transitional economies such as Egypt, the bulk of BDS funding must come from donors and private sources (corporate social responsibility budgets). This makes

fundraising – with brand development and a corresponding inspiring message – a critical factor to obtain funding for sustainability.

**Examples of creative revenue generation**

**Box 1: Approaches to Earned Revenue**

- **ACEnet**: With a specialization in food enterprises, ACEnet charges client fees for in-person and distance training. ACEnet also generates contract revenue for consulting services associated with its multiple brand strategies and experience in operating a kitchen incubator.
- **The Entrepreneur Fund**: In 1998, the Entrepreneur Fund developed the CORE FOUR business-planning course. The Fund trains and certifies other organizations to use the course, which has been adapted widely in the industry. It has also found additional markets for the curriculum in community colleges, technical colleges, chambers of commerce and others.
- **Wisconsin Women's Business Initiative Corporation**: Among varied approaches to earned revenue, developed a social enterprise, Coffee with a Conscience™. The café generates a net profit, all of which is used to cover WWBIC's operational expenses.
- **WESST**: In 2009, it opened a mixed-use business incubation facility in Albuquerque, which has become a hub for its services. Most recently, it added a digital media studio in the facility. In addition to supporting the creation of distance learning content for WESST clients, the organization expects to generate revenue by leasing the studio to advertising and marketing firms, game and application developers, and independent filmmakers.

*Source: Sustaining Business Dev. Services, Ibid.*

The use of proprietary training programs, particularly those offering an industry or quality certification of some kind, are often featured by BDS to differentiate themselves, thereby charging fees for services perceived as valuable to MSMEs. One of the more innovative approaches is the "Coffee with a Conscience" café opened by the Wisconsin Women's Business Initiative (above).

## PART 2 – ASSESSING DEMAND FOR SERVICES

Assessing demand for services is part of a larger process and done, according to the World Bank, by most successful BDS organizations. It generally includes three types of research:

- Client impact – improvements to MSME performance or changes in broader social and economic indicators such as employment or incomes
- Institutional development – the extent to which BDS organizational outreach is cost effective and reaching its intended targets
- Market impact – MSME awareness, trial and repeat usage of services, and thereby, satisfaction with them; this is in line with the retention ration measurement noted previously.

*Source: BDS for SEs Guiding Principles, World Bank CDASED, 2001*

It is the last one, market impact, that best addresses how to gage demand for BDS because the focus remains on the target customers and their buying habits.

**Test marketing**

Offering a newly developed service for trial use with a number of real clients usually achieves better research results than methods in which the service is merely described to potential end users. This is particularly true when attempting to determine if a service will be useful and demanded by the target clients on a fee for service basis. Test marketing has the following advantages over traditional surveys in determining demand:

- A test market study quickly reveals buyer profiles most likely to pay, including industry sectors, gender and regions where the service may be in highest (or lowest) demand
- It has the ability to provide immediate feedback about the service itself
- It allows testing of different service alternatives, e.g., if it can be bundled with other products or the service duration changed
- And test market results tend to be higher in validity, while surveys are more prone to statistical error.

**Research surveys**

However, the main problem with test marketing is it is time consuming and more expensive than administering face to face, printed or telephone surveys, which can generally achieve much higher numbers of participants/respondents. Standard research surveys may predict demand for a service by revealing:

- % of MSMEs who say they will pay for a service
- % of MSMEs who say how much they will pay for a service
- % of non-users who say a service is important
- % of non-users whose reason for not buying can be addressed by the BDS facilitator/provider

The types of surveying tools are many and varied. Research conducted for this report utilized types 2 and 3 below, but for purposes of future data collection types 4 and 5 are addressed in this report.

1. Usage, attitude, image (UAI) study
2. Focus group discussion
3. In-depth one-on-one interview
4. **Product concept test**
5. **Price sensitivity test**
6. Customer satisfaction survey
7. Written questionnaire
8. Telephone survey

*Source: Applying Market Research Tools to Design and Improvement of BDS, Micro Best Practices, DAI, Alexandra Overy Miehlbradt, 1999*

## Product Concept and Price Sensitivity Tests

Product concept tests are used to determine if a service's intended features satisfy target MSME needs. Price sensitivity tests determine which price target MSMEs may pay and if different customer profiles will pay different amounts. These are often used together by BDS organizations to assess demand for services at various price levels. In combination, they are powerful tools to assess demand with reasonable validity, especially when the numbers of respondents are large, e.g., over 100.

The flow of questions for surveys of this type typically follow a usual pattern.

1. Exposure of respondent to service concept
2. Respondent's thoughts about service concept
3. Rating service concept on specific features
4. Overall rating of service in terms of importance to them vis-a-vis other services
5. Interest in purchasing the service
6. Price sensitivity test – a series of prices identifying the price range willing to pay
7. Other similar services and how they compare to the one being discussed.

The price sensitivity test portion usually comes in toward the end of the survey and asks the respondents to indicate the range of prices they believe the service, as described, is worth paying. This is done in a table format and allows selection from a series of indicated price ranges (see **Appendix 1** at the end of this document).

Information typically obtained from product concept and price sensitivity test research:

- Qualitative information – opinions both positive and negative about the proposed service
- Quantifiable ratings on service features
- MSME interest in buying the service
- Realistic service price ranges
- Real competitors for the service are identified
- What MSMEs do to achieve similar benefits (in the absence of the service being offered now)
- Potential market size for the service (as long as the survey reflects the overall population of MSMEs)
- The price to maximize revenue and which MSME profiles will pay what amounts.

Research surveys are only as effective as the methodology that is used. A very useful checklist to guide in the conduct of questionnaires is as follows:

- ✓ Pre-test all surveys with a small number of respondents – this is a very important and often neglected step; pre-testing the questionnaire with five or six actual respondents will almost always illuminate problems with certain questions or the flow of the entire survey itself
- ✓ Ask for personal data at the end of the questionnaire to avoid suspicion and help cooperation – it is important to get through the questions, gain some trust then ask for information about incomes and the like
- ✓ Include interviewer directions in the questionnaire, e.g., if no, skip to Q8
- ✓ Use a multiple choice show card to help respondents select answers about personal information (incomes) without having to say a specific figure
- ✓ Keep questionnaires as short as possible to avoid frustration, rushing and inaccuracy – people tend to get impatient with any questionnaire that requires more than about ten minutes; if that much time is needed then a focus group may be a better option
- ✓ Use a random sample when possible or
- ✓ Use a stratified sample if multiple MSME profiles are important, e.g., if the overall population is 5% medium, 25% small and 70% micro businesses, and information is needed from all three, then the same proportions of respondents should be interviewed
- ✓ 30 respondents are believed to be the minimum number of responses for statistically significant results.

## PART 3 – DETERMINING THE COST AND PRICE FOR SERVICES

### Cost, profit and value: the differences

When pricing services, it is important to know the difference between: cost which is the amount to produce the service; profit which is the financial reward for providing it; and value which is what customers think the service is worth. In commercial consulting these are the three concepts that need to be understood when costing and pricing services. In the non-profit BDS world, cost is important to understand, contribution to costs (not profit) must be understood as well; but it is the value the client thinks a service is worth that becomes the most important consideration.

### Calculating total costs

While client perceived value is the most important consideration for non-profit BDS pricing, it is still important to understand the cost of providing the service, which may influence the target price. The three main kinds of costs are:

<u>Overhead (indirect) costs:</u>

Office & facility expenses (supplies, rent, electricity)

Business expenses (advertising, vehicles, accountants)
Indirect labor (office staff, Finance, IT, management)

Direct labor costs:

Any employee who provides client services
Cost = number of days X employee daily rate

Other direct costs (specific to client assignments)

Any costs resulting from delivering services to clients
Cost = transportation, printing, outsourced trainers

Total Costs:

= The sum of all three costs_

**Calculating overhead**

There are many ways to calculate overhead. A couple of the more popular methods are:

Total organizational overhead costs for one year:
1,500,000 LE

Total salaries of employees who charge their time to clients (direct labor):
2,500,000 LE

BDS organizational overhead rate =
total overhead / total direct labor
1,500,000 LE / 2,500,000 LE
= 60% of direct labor cost

Total organization overhead (indirect) yearly costs:
1,500,000 LE
Total square meters of organization offices:
10,000 meters
Dep't Z office space square meters:
2,000 sq meters (= 20% of total)
Dep't Z apportioned overhead: **20%**

Dep't Z overhead: 1,500,000 x 20% = 300,000 LE annual overhead cost (or 25,000 LE per month)

Both of the above methods are widely used. The first is used for organizations that bill direct labor (their own employees) directly to clients at hourly or daily rates. The second method is better for non-profits that facilitate other BDS providers.

**Variable overhead**

Variable overhead is a tool used to lower risk to an organization when there is some unpredictability in the costs. Example: Outsourced BDS providers might often back out of a training event at the last minute before it is held (and after people have paid). Then a more expensive person must be hired on short notice. In this case, a BDS organization may elect to use variable overhead to reduce their risk. If their usual mark-up on direct costs is 5%, they may continue with the 5% for all direct costs except the outsourced service provider, which would instead be marked up by 10%, thus eliminating some risk that the event price will not be high enough to meet cost coverage objectives.

**Common ways to price services**

Three of the most common ways to price services are:

1. Based on being lower or higher than competitors' prices
2. Based on covering costs to offer the service
3. Based on perceived value to the customer while being aware of the costs

As noted previously, the third pricing strategy is most often adopted by BDS in difficult economies. However, there should always be an awareness of the costs to deliver a service to help select the range of the final pricing – higher or lower based on the level of costs needed to offer the service.

Most BDS in transitional economies must include a strong *social good* factor in the provision of services. Typically, such organizations offer their services at prices in the first three tiers below: social good, social price and direct cost coverage price.

**Zero fees to users**

**[social good]**

**Subsidized price**

**[social price]**

**Equal to direct cost**

**[dir. cost coverage price]**

**% above direct cost**

**[indir. cost contr. price]**

**% above direct & indirect cost**

**[profit price]**

*Direct cost coverage price example*

***NFS Industrial Dep't arranges a B2B event for 1 day and gets 20 furniture makers to agree to attend; direct costs will be 2,000 LE , so furniture makers are charged 100 LE to exhibit***

**Total revenue = 2,000 LE**

**Event budget for direct costs (other direct costs)**

**Venue costs paid by NFS 1,000 LE**
**Printing paid by NFS 200 LE**
**Advertising paid by NFS 500 LE**
**Transport for NFS staff 300 LE Subtotal other direct costs 2,000 LE**

**Direct cost coverage 100%**

*Indirect cost contribution price example*

***Same B2B furniture example but NFS charges 120 LE (instead of 100 LE) to 20 furniture makers***

**Total revenue = 2,400 LE**

**Direct costs (other direct costs)**

**Venue 1,000 LE**
**Printing 200 LE**
**Advertising 500 LE**
**Transport 300 LE Subtotal other direct costs 2,000 LE**

**Contribution margin 400 LE**
**Contribution to indirect cost 20%**

**Charging fees – common methods for BDS**

Charging an hourly rate is common amongst both commercial and non-profit BDS. There is certainly less risk on the part of the service provider but the method requires a degree of trust on the part of the MSME client, which may make them uncomfortable. A flat fee charging system for a specified work product or outcome is generally viewed by MSME clients as lower risk to them, because there are no surprises or fears of

*running up the meter*. It is also the usual method for training evens because the costs are relatively fixed and known (see also **Appendix 2** at the end of this report).

A third method can be applied to either hourly, daily or flat fee work and is known as variable pricing. Variable pricing involves charging different rates for different types of clients depending on their ability to pay. An example might be charging different rates to companies who will purchase exhibit space at a furniture show and exhibition:

- Companies with 1-5 employees pay 200 LE
- Companies with 6-10 employees pay 300 LE
- Companies with 11 or more employees pay 500 LE

Variable pricing is an essential tool used by BDS organizations to more aggressively charge fees to those who can afford them while allowing social good to prevail for those companies, e.g., micro, who cannot afford high cost services.

*EBRD pricing methods*

**Pricing and charging methodology**

MSMEs will pay if they believe ROI will occur
Price depends on client ability to pay (variable)
Regions pay less than urban centers
Should be “a little painful” for client
MSMEs pay 100% in advance then reimbursed
MSMEs usually pay between 20%-30%
If cost is very high – installment payments
EBRD will not pay directly to a consultant

The above EBRD pricing methodology has been used in Egypt and elsewhere extensively. The overriding objective is to make the transaction appear as commercial as possible while still subsidizing for social good.

*Cross subsidizing*

Cross subsidizing is another oft used tool by BDS to reflect the fact some services need to be virtually given away. In this case, the BDS will attempt to charge a little more than they usually might for a service with strong demand to help subsidize the low-price service. Example: To reach their cost recovery goals - the NFS Agribusiness Dep’t cannot charge high fees for feasibility studies to micro companies (maybe 30 LE) but

they might charge higher fees to cooperatives for capacity building (maybe 250 LE) to help subsidize the low price of the feasibility studies.

*A few US based BDS charging examples designed to attract price sensitive clients*

- $25 annual fee for training graduates to access other materials and resources
- $50 access fee covering program registration and including six hours of consulting
- $25 - $50 membership (individual or company) then heavily discounted ($10/hour) consultations and quarterly meetings
- $60 - $120 annual memberships (depending on company size) with regular monthly group services offered for no charge
- One-on-one assistance offered to registered members (who receive consulting discounted at $5/hr) plus nominal fees for group based training or facilities use

*Other pricing considerations*

BDS organizations that routinely work in price sensitive markets typically factor in at least six criteria when deciding price levels for services:

1. Economic conditions and ability of target clients to pay
2. Competitors' prices
3. Statutory/legal ceilings (as with OSS)
4. Political and social pressures
5. Expected inflation
6. Organizational goals for cost recovery

The first item on the list – economic conditions and ability of clients to pay, once again, is the overriding criterion for most BDS in developing economies. Although, certainly for quasi-governmental organizations like SFD, the fourth item (political and social pressures) are never far from the discussion.

## Conclusion

Whichever pricing methodologies are adopted, to be effective they should be:

- Fairly applied internally (fair indirect cost apportionment to all sectors and departments)
- Fairly applied externally to client MSMEs (variable pricing by size and ability to pay)
- And realistically applied:
    - understanding that achieving full cost coverage for most BDS organizations is not a realistic goal
    - charging fees for most services is a realistic goal.

# APPENDIX 1 – MARKET RESEARCH TOOLS

*Source: Applying Market Research Tools to Design and Improvement of BDS, Micro Best Practices, DAI, Alexandra Overy Miehlbradt, 1999*

## *Product concept & price sensitivity tests*

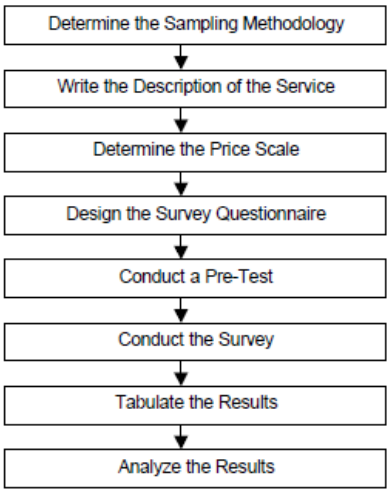
A product concept test is used when a practitioner has an idea for a new service but is not sure whether the service envisioned will meet the needs of MSEs and whether MSEs will demand and pay for the service. The aim of a product concept test is to learn what consumers think of the service idea and get feedback so that a supplier can either cancel development of the service or improve the service idea. A product concept test helps a practitioner learn whether MSEs understand and want the benefits offered by the service and its features.
Offering a price sensitivity test together with a product concept test provides information on how much consumers will pay for the service as they understand it.

The objectives of a product concept test are to:
# Find out how target consumers will make sense of the new service concept;
# Uncover any negative aspects of the service concept; and
# Assess the motivating value of the service as conveyed by its description—that is, whether consumers want to pay for the benefit the supplier plans to sell.

The following information can be obtained from a product concept test with a price sensitivity test:
# Qualitative information on what consumers think about the service idea—both positive

and negative;
# Ratings of the service features and the service overall;
# Consumers' interest in buying the service;
# What consumers will pay for the service;
# What are the "true competitors" of the service; and
# How consumers get the benefits of the service currently.
An analysis of the results of the product concept test also can tell a practitioner:
# The approximate potential market size for the service; and
# The price for the service that will maximize revenue.

**Figure 4: Product Concept and Price Sensitivity Tests Flowchart**



## ELEMENTS OF PRODUCT CONCEPT/PRICE SENSITIVITY TESTS

| Information Objective | Data | Sample Questions (from the Philippine ICT study) |
|---|---|---|
| **Screening Questions:** To determine if respondent is qualified for the survey. | N/A | How many full- or part-time workers does your business have now?<br>*25 or less = proceed*<br>*more than 25 = terminate interview* |
| | N/A | What is your current role in the business?<br>*owner/manager/relative of owner = proceed*<br>*other = terminate* |
| | N/A | Have you heard, read, or seen anything about e-mail services?<br>What have you heard, read, or seen about e-mail services?<br>*unaware of service = proceed*<br>*aware of service = terminate* |
| **Expose Respondent to Service Concept:** To explain the service, its benefits, and its features to the respondent. | N/A | E-mail allows you to send a message to another person through a computer. You would provide your written message to an attendant who would type it into the computer and send it. The message would appear on the computer of the person you want to send it to very quickly—within a minute or two. You also could receive messages this way. The person you want to send or receive e-mail to or from must also have access to a computer because e-mail can be sent only to and from computers. This is a very quick and convenient way to send written messages. It is cheaper than a long-distance phone call or fax. The price does not depend on distance—it is no more expensive to send an e-mail to someone in another country than it is to send an e-mail to someone in this area.<br><br>*The respondent reads the description of the service clearly written on a card that the respondent can hold. To make sure he or she read it well, the interviewer can either read the description aloud together with the respondent or ask the respondent to read the description again.*[15] |

| Information Objective | Data | Sample Questions (from the Philippine ICT study) |
|---|---|---|
| **Reaction to Concept:** To learn how MSEs make sense of the service and any negative aspects of the service. This information helps practitioners see the service through the consumers' eyes and improve on the design of the service. | Qualitative data on the reactions to the service | What do you think about the e-mail service that you have just read? What else do you like (dislike) about it? Anything else? |
| **Specific Features:** To understand how the service compares to its competition or substitutes on specific service features. This information helps practitioners determine the need for the service, learn what benefits are needed, and design service features. | Ratings of service features | I would now like you to rate some specific features of the service that you just read about. For each feature, tell me if you believe that:<br><br>1 = There is no other service now available that attends to this particular feature satisfactorily to meet the needs of your business.<br>2 = There is at least one service that attends to this feature satisfactorily to meet the needs of your business.<br>3 = There are many services that attend to this feature satisfactorily to meet the needs of your business.<br><br>Features:<br><br>▪ Sends messages quickly<br>▪ Sends messages cheaply<br>▪ Provides a convenient way to send messages<br>▪ Enables entrepreneur to frequently send messages<br>▪ Enables entrepreneur to both send and receive messages<br>▪ Allows small enterprises to do business with larger enterprises with computers |
| **Overall Rating:** To determine MSEs' perceived need for the service. This information helps practitioners decide whether to pursue development of the service. | Overall rating of service | Overall, would you say that this service would be:<br><br>1 = Extremely or often helpful for your business<br>2 = Somewhat or sometimes helpful for your business<br>3 = A little or occasionally helpful for your business<br>4 = Not at all or never helpful for your business |

| Information Objective | Data | Sample Questions (from the Philippine ICT study) |
|---|---|---|
| **Interest in Purchasing:** To gauge MSEs' interest in purchasing the service. This information helps practitioners decide whether to pursue development of the service. It provides information for practitioners and donors on potential market size. | Interest in purchasing the service | Based on what you've read about the service, would you say that you would be _____ in buying it?<br><br>1 = Definitely interested<br>2 = Probably interested<br>3 = Probably not interested<br>4 = Definitely not interested<br><br>*The interviewer should not allow the respondent to say "not sure" and should encourage the respondent to take a stand based on his or her feelings at the moment. This helps avoid the typical tendency in a product concept test of many respondents clustering around the mid-point response.* |
| **Price Sensitivity Test:** To determine MSEs' "rejection price" for the service—the price at which they will no longer buy the service. This information helps pinpoint MSEs' willingness to pay for the service, determine a price for the service, and make projections on potential revenue from the service. | MSEs' "rejection price" for the service measured on a price scale | At what price per line on this scale do you begin to feel that you would no longer be interested in sending e-mail?<br>(Show price scale.) |
| **Competitor/Substitute Services:** To learn what are the competing or substitute services currently available. This information can pinpoint other services for study or other sources for the envisioned benefit that donors can develop or improve. | MSEs' use of competitor/substitute services | If at (mention price threshold), you would no longer be interested in using e-mail service, how would you send your messages?<br>How do you send your messages now? |

*Usage, attitude and image market studies*

A UAI market study is a broad look at the current market for a specific service from known
suppliers. The power of a UAI market study is that it provides information from the
perspective of the consumers, MSMEs. BDS suppliers and donors can use the data from a

UAI survey for the following purposes:

*Understanding the overall market* – Using usage data, a BDS practitioner or donor can
estimate the market size, in monetary terms, for the service. If the UAI survey includes all
MSEs, rather than only users, it is possible to calculate market penetration. Usage data also
can provide information on how much MSEs spend on a service, which would give the BDS
practitioner and donor an indication of the importance of the service to MSEs.

*Increasing demand* – The UAI survey provides information on the percentage of consumers
who know about the service (awareness), the percentage of consumers who are aware of the
service and have tried it (reach), and the percentage of consumers who have tried the service

and continue to use it regularly (retention). This information helps the BDS supplier
determine where to spend available marketing funds; it also helps donors pinpoint constraints
to market development. Second, the UAI study shows the rate of consumer adoption of a
service—that is, how fast the service is accepted by the market. A service that consumers
adopt quickly would require less promotion; those services that take a while to catch on
might also require some carefully designed donor interventions to stimulate demand. Third,
personal and business information about survey respondents can help a practitioner identify
which type of MSEs use the service. This information can help the practitioner better target
these MSEs or change the service to reach a different market segment.

*Developing and improving services* – The UAI survey can provide information on where
MSEs go to access a certain service. This information will help the BDS practitioner or donor
identify the competition for a service. Studying service sources will enable the practitioner or
donor to either get ideas for designing a service or find ways to build upon these services so
as not to crowd out current suppliers. The survey also provides information on which service
features MSEs consider important and their level of satisfaction so that BDS practitioners can
improve the design of their service. The same importance and satisfaction data also can be
used to compare various suppliers of the service and find opportunities in the market for
improving on current supply.

UAI questions
1. Screening questions;
2. Awareness of service and suppliers;
3. Usage (including suppliers, location, frequency, and amount spent);
4. Important service features;
5. Rating of suppliers on service features; and
6. Personal data on respondent.

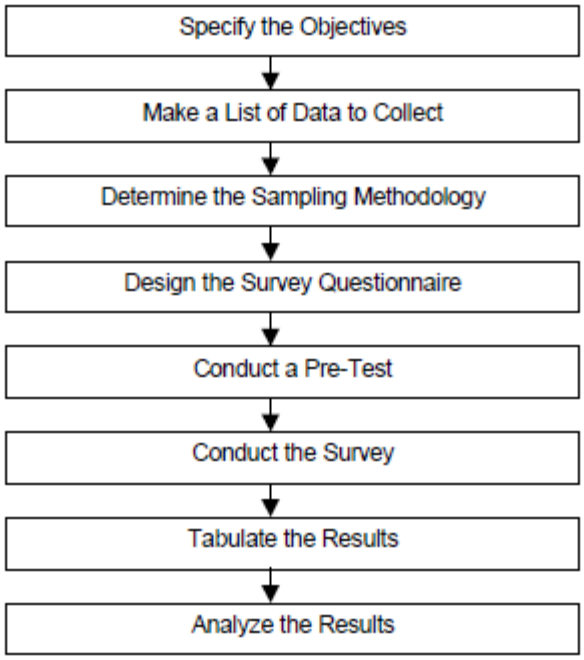
Some of the specific data that the UAI market study gathers directly are:
# MSEs' awareness level of a service and different suppliers of the service;
# How MSEs learned about suppliers of the service;

# MSEs' use of a service, including from whom they purchase (or get it), where they
purchase (or get it), how often they use it, how much they spend on it, and when they first
started using it;
# Why MSEs do not use the service;
# What service features are important to consumers;
# How satisfied customers are with the various features of the service from different
suppliers;
# Demographic information about service consumers, such as education, gender, and
income level; and
# Information about service consumers' businesses, such as the type of business and sales.

From an analysis of these data, a BDS practitioner can learn:

# The "true competitors" for a service—in other words, where do MSEs get the benefits of
a service if they do not buy the service (often informal sources such as neighbors or
relatives);
# The approximate market size for the service (in volume and monetary terms);
# The marketing challenges for the service;
# How fast consumers are accepting the service; and
# A demographic profile of consumers who took a risk in using the service when it was
new and those who waited until it was well established.

**Figure 1: UAI Study Process Flowchart**



## ELEMENTS OF A UAI QUESTIONNAIRE

| Information Objective | Data Tables | Sample Questions (from the Philippine ICT study) |
|---|---|---|
| **1. Screening Questions:** To determine if respondent is qualified for the survey. | N/A | Have you ever used services here for business purposes?<br>*yes = proceed  no = terminate interview* |
| | N/A | How many full- or part-time workers does your business have now?<br>*25 or less = proceed*<br>*more than 25 = terminate* |
| | N/A | What is your current role in the business?<br>*owner/manager/relative of owner = proceed*<br>*other = terminate* |
| **2. Awareness of Services:** To determine how aware MSEs are of the service. This information helps BDS practitioners decide how extensive an information campaign their program requires. | % aware of service<br>% correctly defining service | Have you heard, read, or seen anything about fax services?<br>What have you heard, read, or seen about fax service? |
| **3. Usage of Services:** To understand users' current purchase and usage habits and practices. This information helps BDS practitioners identify suppliers that can be studied, decide how to advertise, and design services in the right quantity and the right place. It also helps BDS practitioners in estimating the level of demand for the service.<br><br>This information can help donors quantify market size and market penetration and evaluate suppliers' success in reaching MSE customers. It can also help practitioners or donors understand why MSEs do or do not purchase the business service and what informal alternatives exist. | % using service | Have you ever purchased fax services anywhere for business purposes? |
| | Locations of use | Where have you purchased fax services for business purposes? |
| | How customers learn about service locations | How did you find out about (purchase location)? |
| | Frequency of use | How often do you use fax services for business purposes? |
| | Volume of use | If you used fax services in the last month for business purposes, how much did you spend the last time you sent a fax? |
| | When use started | When was the first time you ever purchased fax services for business purposes? |
| | Reasons for use (specific and general) | Who did you communicate with when you used fax services in the last month? What was the fax about?<br>How does fax service help your business? |
| | Reasons for non-use (for non-users) | Why have you not used fax services? |
| | Competitor/ substitute services | *For users:* If you cannot get fax services, what will you do?<br>*For non-users:* If you need to send a document quickly, how do you do it? |

| Information Objective | Data Tables | Sample Questions (from the Philippine ICT study) |
|---|---|---|
| **4. Service Features:**[14] To learn what service benefits customers prioritize. This information helps practitioners design a service with the features that MSEs want. | Importance of service features | I will now read to you a list of qualities and features of communications service suppliers. Please rate these features according to how important they are to you in a communications service supplier. Would you say that (mention each feature) is to you: extremely important, quite important, a little important, not that important, it depends on _____ (ask respondent to clarify).<br>Features tested:<br>▪ Distance from business<br>▪ Convenience of the location<br>▪ Variety of services<br>▪ Clarity of connection or page<br>▪ Waiting time<br>▪ Friendly and helpful attendants<br>▪ Cleanliness<br>▪ Clear layout<br>▪ Available and comfortable waiting area<br>▪ Comfort while using service<br>▪ Privacy<br>▪ Confidentiality<br>▪ Accuracy |
| **5. Customer Satisfaction:** To learn how satisfied customers are with service features and to compare suppliers. This information can help individual suppliers become more competitive. This information can help BDS facilitators or donors evaluate how well suppliers are meeting the demand from MSEs and help them modify services to better reach the MSE market. | Customer satisfaction with service features | *If evaluating only one supplier:* Now, may I ask for your opinion about this service supplier? Regarding each of the features, compared to your expectations, please tell me if you are: very satisfied, a little satisfied, a little dissatisfied, very dissatisfied.<br>*If evaluating multiple suppliers:* Now, may I ask for your opinion about this service supplier and the ones you mentioned earlier? Please rate each of them on each of the features you just rated. Let's start with (name of service supplier) . . . |

| Information Objective | Data Tables | Sample Questions (from the Philippine ICT study) |
|---|---|---|
| **6. Personal Data:** To learn about the market segments that use the service. This information helps practitioners target the service to a particular segment of the MSE market or learn that the service must be changed to reach a different type of MSE. This information can help donors understand and monitor outreach to various types of MSEs—for example, MSEs that are typically underserved. | Business type—formal or informal sector | Is your main business registered with a government agency? |
| | Business type—subsector | What is your business? |
| | Age of business | When did your business start? |
| | Gender of entrepreneur | Who owns the business? |
| | Location of business; distance of business from supplier | In what municipality is your business located? |
| | Business sales | What were the sales of the business last (name relevant period)? |
| | Income level of family of respondents | Into which category does the monthly income from all sources of your family fit? (Provide relevant categories.) |
| | Respondents' education level | What level of schooling did you complete? |

## APPENDIX 2 – PRICING BUSINESS SERVICES

*Source: How to Price Business Services, Elizabeth Wasserman, Inc Website*
*http://www.inc.com/guides/price-your-services.html*

### *Pricing methods and their uses*

•Cost-plus pricing. This standard method of pricing in business seeks to first determine the cost of making a product or, in this case, providing a service, and then add an additional amount to represent the desired profit. To determine cost, you need to figure out direct costs, indirect costs, and fixed costs. "With the cost-plus approach, the thing to remember is that if you're paying someone $11 an hour, you may think you should charge $11 an hour for the service they provide, but you have to factor in all your costs," says Jerome Osteryoung, a professor of Finance at Florida State University and outreach director of the Jim Moran Institute for Global Entrepreneurship. Those costs include a portion of your rent, utilities, administrative costs, and other general overhead costs. "When I make a deal to sell a service," he says, "I have to make sure to cover all my costs."

•Competitors' pricing. You need to be aware of what competitors are charging for similar services in the marketplace, Osteryoung says. This information could come from competitor websites, phone calls, talking to friends and associates who have used a competitor's services, published

data, etc. "I don't think it's a good idea for any entrepreneur to compete on price if you can avoid it. Compete on service, ambiance, or other factors that set you apart," Osteryoung says. If you have to compete on price to win a customer, you may ask yourself whether that customer will be loyal to you if they find someone offering a service at a lower price. You want to establish long-term relationships in the marketplace. "You need to convince the customer that you are giving them tremendous value in terms of service and quality," Osteryoung says. "You just need to be aware of what the competition is charging."

•Perceived value to the customer. This is where a lot of the subjectivity comes in when setting a price for a service. When you have a product, you may decide to use keystone pricing, which generally takes the wholesale cost and doubles it to come up with a price to charge and account for your profit. With a service, you can't necessarily do that. To your customer, the important factor in determining how much they are willing to pay for a service may not be how much time you spent providing the service, but ultimately what the perceived value of that service and your expertise is to them, Osteryoung says. That is where pricing becomes more of an art form.

*Some benefits and risks associated with the following pricing models:*

•Charging an hourly rate. For many businesses, pricing services on an hourly rate is preferred. This ensures that you are achieving a rate of return on the actual time and labor you invest in servicing each customer. Hourly rates are often used when you are pricing your own consulting services, instead of pricing a service that uses labor and materials from others. Your rate should be determined by your amount of expertise and seniority; a more senior consultant will generally be paid a higher hourly rate than a less experienced or junior consultant. The SBA recommends that one's travel time be included as an extra charge. Sometimes even consultants are asked to price a service on a project or contract basis. That contract needs to factor in clerical support, computer or other services, and overhead expenses, the SBA advices.

•Charging a flat fee. In tough economic times, many businesses are concerned about keeping costs down and may agree to hire your business for services only on a fixed-rate or flat-fee basis. "Customers want a fixed rate," Osteryoung says. "Entrepreneurs want an hourly rate. It's a question of who is going to bear the risk. If I charge a flat rate, I am bearing the risk." If a project takes longer than expected to complete, you may risk losing money on the client. If you have a customer that insists on a flat fee, you may want to see if they are amenable to putting a

cap on the number of hours involved in the project or agree to pay additional fees if the project runs over that time.

•Variable pricing. In addition to determining a fair price for your services, you have to determine whether you will practice a fixed-price policy and charge all your customers the same amount or whether you want to institute variable pricing, in which bargaining and negotiation help set the price for each customer. "Should you charge different customers different rates? I have a hard time with that," Osteryoung says. "The exception is if someone comes in and says that they will book 1,000 hours of time, you may want to give them a price break for quantity. But in general, charging different prices to different customers will create ill will. People will talk about it and they will find out." One thing a business can not afford to lose is its integrity and respect among customers.